regulations. It will have no additional impact on the public. Therefore, it is being published as final rulemaking and will be effective upon publication.

It is hereby determined that this document is not a major Federal action significantly affecting the quality of the human environment and that no detailed statement pursuant to section 201(2)(C) of the National Environmental Policy Act of 1969 (42 U.S.C. 4332(2)(C)) is required.

The Department of the Interior has determined that this document is not a major rule under Executive Order 12291 and will not have a significant economic effect on a substantial number of small entities under the Regulatory Flexibility Act (5 U.S.C. 601 et seq.).

This final rulemaking contains no additional information collection requirements.

The principal author of this final rulemaking is David R. Shepard, Office of Legislation and Regulatory Management, Bureau of Land Management.

List of Subjects in 43 CFR Part 20

Conflict of interest.

PART 20—[AMENDED]

Under the authority of the Federal Land Policy and Management Act (43 U.S.C. 1701 et seq.) Part 20, Subtitle A of Title 43 of the Code of Federal Regulations is amended as set forth below.

§ 20.735-22 [Amended]

Section 20.735-22(c)(1) is amended by removing the second sentence of that section in its entirety.

Dated: February 13, 1984.

Garrey E. Carruthers,

Assistant Secretary of the Interior.

[FR Doc. 84-4647 Filed 2-22-84; 8:45 am]

BILLING CODE 4310-10-M

Bureau of Land Management

43 CFR Part 8370

Special Recreation Permit Policy

AGENCY: Bureau of Land Management, Interior.

ACTION: Final special recreation permit policy; correction.

SUMMARY: The Part heading in the Final Special Recreation Permit Policy of the Bureau of Land Management, Department of the Interior, published on Friday, February 10, 1984, at 49 FR 5300, reading "43 CFR Part 8560", should have read, "43 CFR Part 8370".

FOR FURTHER INFORMATION CONTACT: Bruce R. Brown (202) 343-9353.

Dated: February 21, 1984.

James M. Parker,

Acting Director.

[FR Doc. 84-4850 Filed 2-22-84; 8:45 am]

BILLING CODE 8310-84-M

DEPARTMENT OF TRANSPORTATION

Coast Guard

46 CFR Part 401

[CGD 83-064]

Great Lakes Pilotage Rates

Correction

In FR Doc. 84-3809 beginning on page 5347 in the issue of Monday, February 13, 1984, make the following corrections:

§ 401.405 [Corrected]

1. On page 5348, column one, § 401.405 introductory text, line five, "subscribed" should read "described".

§ 401.420 [Corrected]

2. On the same page, column two, § 401.420(a), line nine, "basis" should read "basic"; also in lines twelve through fifteen, "$33 for each hour or part of an hour during which each interruption lasts with a maximum basic rate of" was inadvertently repeated and should be removed.

BILLING CODE 1505-01-M

National Highway Traffic Safety Administration

49 CFR Part 571

[Docket No. 81-04; Notice 5]

Federal Motor Vehicle Safety Standards; Glazing Materials

AGENCY: National Highway Traffic Safety Administration, DOT.

ACTION: Final rule.

SUMMARY: This notice amends Standard No. 205, *Glazing materials*, to adopt by reference the 1980 version of American National Standard Z26, the safety code for glazing materials promulgated by the American National Standards Institute. Adoption of the most recent version of Z26 will permit the use of the latest technological developments in glazing. This notice also amends the standard to permit the use of a new type of bullet resistant glazing material and sets appropriate performance requirements for that glazing. The new glazing would be used in bullet resistant shields that would be installed inside a vehicle behind the windshield and other areas of the vehicle. Since the new glazing materials are lightweight, small businesses would be able to provide ballistic protection for their employees at a lower cost.

DATES: The amendments are effective on February 23, 1984. Any petition for reconsideration must be received by March 26, 1984.

ADDRESSES: Any petition for reconsideration should refer to the docket and notice number and be submitted by March 26, 1984. to: Docket Section, Room 5109, National Highway Traffic Safety Administration, 400 Seventh Street, SW., Washington, D.C. 20590.

FOR FURTHER INFORMATION CONTACT: Mr. Edward Jettner, Office of Vehicle Safety Standards, National Highway Traffic Safety Administration, 400 Seventh Street, SW., Washington, D.C. 20590 (202-426-2264).

SUPPLEMENTARY INFORMATION: Safety Standard No. 205, *Glazing materials*, (49 CFR 571.205) sets performance requirements for glazing materials used in motor vehicles and motor vehicle equipment. The standard incorporates by reference the American National Standard Institute's "Safety Code for Safety Glazing Materials for Glazing Motor Vehicles Operating on Land Highways" Z-26.1-1966, as supplemented by Z26.1a-1969 (ANS Z26). The requirements of Standard No. 205 are set forth in terms of performance tests that the various types or "items" of glazing must meet. Currently there are 14 items of glazing materials permitted under Standard No. 205.

On November 18, 1980, NHTSA granted petitions for rulemaking filed by Rohm and Haas and General Electric (GE). The petitioners requested the agency to amend the standard to incorporate a revised edition of ANS Z26 that was published on January 26, 1977. They said that the revised edition would enable manufacturers to take advantage of the latest technological developments in glazing and would reduce test burdens by eliminating unnecessary testing.

Additionally, GE requested that Standard No. 205 be amended to permit the use of a new type of bullet resistant glazing, which could be used as a shield in vehicle areas requisite for driving visibility. This transparent barrier would be mounted separately inside the vehicle behind glazing materials that independently comply with the requirements of Standard No. 205. Since the plastic glazing materials are light weight, GE claimed that small

businesses would be able to provide ballistic protection to their employees at a lower cost.

ANS Z26 Revision

Subsequent to the Rohm and Haas and GE petitions, the American National Standards Institute published a 1980 revision to ANS Z26. In July 1982, the agency proposed (47 FR 32749) to incorporate the 1980 revision. (Please refer to the July 29, 1982 notice for an extensive discussion of the provisions of the 1980 version of ANS Z26.)

All commenters supported adoption of the 1980 edition of ANS Z26, citing the advantages gained by using a more modern technical reference. The major benefits of the 1980 version are that it adds metric equivalents to the test procedures and performance requirements, eliminates certain tests which are not necessary to assess the resistance to delamination and light stability of tempered glass, and expands the permissible glazing materials to accommodate technological advances in glazing technology, particularly for bullet resistant glazing.

The elimination of Humidity Test No. 3 and Boil Test No. 4 for tempered glass will not adversely affect safety. These tests are unnecessary because, unlike laminated glass which contains intervening layers of glazing materials, tempered glass is a single layer of material and therefore cannot delaminate. Likewise the elimination of ANS Z26 Section 5.1.4 of Light Stability Test No. 1 for tempered glass also will not have an adverse safety effect. This section of Test No. 1 is designed to detect decomposition of laminates after exposure to ultraviolet radiation. Since tempered glass does not contain laminates, the test is superfluous. The agency therefore has decided to incorporate by reference the 1980 version of ANS Z26 in Standard No. 205.

Bullet Resistant Shields

In the July 29, 1982 notice, NHTSA also proposed to amend Standard No. 205 to establish a new item of glazing, "Item 11C." The new item would permit the use of new plastic glazing materials which are lighter and less costly than bullet-resistant glass used on steel-armored vehicles. Use of these lighter glazing materials should increase fuel economy by reducing vehicle weight.

Most commenters favored the use of the new bullet resistant shields, which would be mounted behind glazing material that also must comply with Standard No. 205. Several manufacturers of armored vehicles and armored vehicle equipment, however, expressed doubts about the safety, durability, and adequacy of plastic bullet resistant shields. Those comments are discussed below.

Head Impact

One of the purposes of Standard No. 205 is to reduce glazing related injuries in motor vehicle crashes. No commenter specifically addressed the possibility of injuries due to the increased use of bullet resistant shields made of the new glazing materials. The agency recognizes that bullet resistant shields are thicker and more rigid than ordinary safety glazing and may cause injury during a crash. However, the same possibility exists for other items of bullet resistant glazing materials, such as currently used item AS–10 glazing materials.

The agency estimates overall effect on occupant injuries due to the use of bullet resistant shields is minor since no more than several hundred vehicles per year will be so equipped and the probability of a crash leading to severe injuries is small. The agency also believes that specially armored vehicles are operated by trained drivers who, because of the possibility of having to do sudden high-speed maneuvers, will wear seat belts while driving. The agency concludes that permitting the use of new bullet resistant glazing materials represents a reasonable compromise between crash safety and protection from armed attack.

Shield Retention

Several commenters said that bullet resistant shields are potentially unsafe because the attachment could loosen due to the shock and vibration caused by high speed manuevering or could be shot off. Brinks, however, reported that it had not experienced any shock or vibration problem with the bullet resistant shields it has used.

The agency agrees that the shield attachment must be designed to accommodate shock or vibration. These problems are no different than the problem in designing attachments for other items of automotive glazing for use as windshields or side windows, for example. In the absence of field data showing there is an actual problem, the agency does not see a need to specify attachment requirements at this time.

Ballistic Adequacy

Goodyear Aerospace expressed concern that the public might be misled as to the ballistic adequacy of the plastic shields. The agency recognizes that there are limitations to the bullet resistance of any type of glazing. However, all bullet resistant glazing must meet at least one of the four types of bullet resistant requirements set forth in Test No. 27 of ANS Z26. Standard No. 205 requires bullet resistant glazing to be marked to indicate the degree of ballistic protection provided by that particular glazing material. The markings will adequately convey the necessary information to the purchaser who must then determine whether the shield meets his protection needs.

Light Degradation

Moore and Sons commented that polycarbonate plastics degrade when exposed to ultraviolet radiation. It said that these materials lose their bullet resisting capability as plastic continues to be exposed. GE furnished data that illustrated that certain older types of polycarbonates are sensitive to ultraviolet light. However, data gathered on newer, improved versions of polycarbonates, which are coated and ultraviolet light stabilized, show substantial resistance to this effect. Purolator, which operates a fleet of armored vehicles, said that its field experience has not found ultraviolet light to cause a problem for the newer polycarbonates.

To ensure the ultraviolet light resistant performance of bullet resistant glazing the agency is adopting in the final rule a requirement that such glazing pass a light stability test (Test No. 30). Test No. 30 provides a ultraviolet radiation exposure similar to the light stability test specified for other glazing materials for use in locations requisite for driving visibility, such as windshields.

Chemical Durability

Moore and Sons also expressed concern that plastic materials could be damaged by ordinary chemicals used in cleaning vehicle interiors. However, Saint Gobain Vitrage, a manufacturer of automotive glazing, reported that bullet resistant laminates, such as polycarbonates have proved durable after extensive use. GE said that for over ten years, special U.S. Government vehicles and vehicles designed for use in foreign countries have been equipped with bullet resistant plastic glazing materials without any reported optical degradation. Based on this information, the agency has concluded that with normal use plastic ballistic shields meeting the chemical resistance tests set in the final rule should have adequate chemical durability.

In addition, to minimize durability and optical clarity problems, the agency is requiring manufacturers to provide cleaning instructions on a label on the glazing materials. The instructions will inform owners of the proper choice of

cleaning materials and procedure for both cleaning and frost and ice removal. The agency believes that the labels will be adequate to avoid cleaning problems with ballistic shields.

Defogging Problems.

Moore and Sons also raised questions about whether the close proximity of the bullet resistant shield to the vehicle's windshield may cause inadequate defogging and defrosting. Goodyear and GE commented that the defogging or defrosting of the windshield should not be compromised if an air space is maintained between the windshield and the ballistic shield. Since the final rule requires ballistic shields to be installed behind and separate from other glazing materials, the agency does not expect there to be defogging or defrosting problems. Likewise, the final rule requires the ballistic shield to be readily removable; thus making it easy to clean the inside of the windshield and other windows of the vehicle.

Double Vision

Goodyear said that the ballistic shield, because it is mounted behind the windshield, may cause multiple image problems during night time driving. This could occur whenever bright sources of lights, such as headlights, are viewed at an angle through the two separated pieces of glazing. The agency recognizes that the separated glazing materials can cause reflections under certain conditions leading to an illusion of double vision. The secondary images, however, should be faint because only a small amount of incoming light is reflected from the surface of a transparent glazing material. As previously mentioned, GE has reported that plastic ballistic shields have been in use for ten years without any reported optical problems. The agency therefore has concluded that the multiple image problem, if any, should be minor.

Effective Date

Although the effective date was proposed as three months after publication of the final rule, the agency has determined that this delay is not necessary. The portions of the final rule adopting the 1980 version of ANS Z26 will not require glazing test laboratories to purchase additional test equipment nor require additional training in new test protocols. Since the provision on ballistic shields does not require the use of such glazing, but instead gives the manufacturer the option of using the new glazing, having an immediate date will not impose any burdens on manufacturers. The agency has determined that it is in the public interest to make the use of the new bullet resistant glazing materials immediately available and therefore has set an immediate effective date for the amendments made by this notice.

Marking

The final rule requires prime glazing material manufacturers to mark the new bullet resistant glazing material as "AS 11C" materials. In addition, this rule requires manufacturers of the glass-plastic glazing material permitted by the agency on November 16, 1983 (48 FR 52061) to mark those materials as "AS 14" materials. This marking will help ensure that the materials are used in the appropriate locations in motor vehicles.

Costs

The agency has evaluated the economic and other effects of this final rule and determined that they are neither major as defined by Executive Order 12291 nor significant as defined by the Department's Regulatory Poicies and Procedures. The agency has determined that the economic effects of ths final rule are so minimal that a full regulatory evaluation is not required.

The adoption of the 1980 version of ANS Z26 will likely reduce costs through the elimination of unnecessary tests. The new bullet resistant glazing materials permitted by this rule will be initially more costly than conventional bullet resistant glass. However, the final rule does not mandate the use of the new bullet resistant shields, it merely gives manufacturers the option of using the new materials. Those materials will only be used on a very limited number of vehicles per year. In addition, although the new materials may be initially more costly, the cost may be offset by reduced vehicle weight and increased fuel economy.

In accordance with the Regulatory Flexibility Act, the agency has evaluated the effects of this action on small entities. As previously discussed, this rule does not mandate the use of the new materials, it permits their use. The rule may assist small businesses by providing ballistic protection to their employees at a lower overall cost. Based on the agency's evaluation, I certify that the final rule will not have a significant economic effect on a substantial number of small entities.

Finally, the agency has analyzed the effects of this action under the National Environmental Policy Act. The agency has determined that the final rule will not have a significant effect on the quality of the human environment.

The information collection requirements contained in this rule have been submitted to and approved by the Office of Management and Budget (OMB), pursuant to the requirements of the Paperwork Reduction Act of 1980 (44 U.S.C. 3501 *et seq.*). Those requirements have been approved through September 30, 1985 (OMB #2127–0512).

List of Subjects in 49 CFR Part 571

Imports, Motor vehicle safety, Motor vehicles, Rubber and rubber products, Tires.

PART 571—[AMENDED]

In consideration of the foregoing, § 571.205, *Glazing materials*, of Title 49 of the Code of Federal Regulations is amended as follows:

§ 571.205 [Amended]

1. Section S4 is amended by adding a new definition to read as follows:

* * * * *

"Bullet resistant shield" means a shield or barrier that is installed completely inside a motor vehicle behind and separate from glazing materials that independently comply with the requirements of this standard.

* * * * *

2. Paragraph S5.1.1 is revised to read as follows:

* * * * *

S5.1.1 Glazing materials for use in motor vehicles, expect as otherwise provided in this standard shall conform to the American National Standard "Safety Code for Safety Glazing Materials for Glazing Motor Vehicles Operating on Land Highways" Z–26.1–1977, January 26, 1977, as supplemented by Z26.1a, July 3, 1980 (hereinafter referred to as "ANS Z26"). However, Item 11B glazing as specified in that standard may not be used in motor vehicles at levels requisite for driving visibility, and Item 11B glazing is not required to pass Test Nos. 17, 30, and 31.

* * * * *

3. Paragraph S5.1.2 is revised to read as follows:

* * * * *

S5.1.2 In addition to the glazing materials specified in ANS Z26, materials conforming to S5.1.2.1, S5.1.2.2, S5.1.2.3 or S5.1.2.4 may be used in the locations of motor vehicles specified in those sections.

* * * * *

4. Paragraph S5.1.2.1 is revised to read as follows:

* * * * *

S5.1.2.1 *Item 11C—Safety Glazing Material for Use in Bullet Resistant Shields.* Bullet resistant glazing that complies with Test Nos. 2, 17, 19, 20, 21, 24, 27, 28, 29, 30 and 32 of ANS Z26 and

the labeling requirements of S5.1.2.5 may be used only in bullet resistant shields that can be removed from the motor vehicle easily for cleaning and maintenance. A bullet resistant shield may be used in areas requisite for driving visibility only if the combined parallel luminous transmittance with perpendicular incidence through both the shield and the permanent vehicle glazing is at least 60 percent.

* * * * *

5. Paragraph S5.1.2.2 is revised to read as follows:

* * * * *

S5.1.2.2 *Item 12—Rigid Plastics.* Safety plastics materials that comply with Test Nos. 10, 13, 16, 19, 20, 21 and 24 of ANS Z26, with the exception of the test for resistance to undilated denatured alcohol Formula SD No. 30, and that comply with the labeling requirements of S5.1.2.5, may be used in a motor vehicle only in the following specified locations at levels not requisite for driving visibility.

(a) Window and doors in slide-in campers and pick-up covers.

(b) Motorcycle windscreens below the intersection of a horizontal plane 15 inches vertically above the lowest seating position.

(c) Standee windows in buses.

(d) Interior partitions.

(e) Openings in the roof.

(f) Flexible curtains or readily removable windows or in ventilators used in conjunction with readily removable windows.

(g) Windows and doors in motor homes, except for the windshield and windows to the immediate right or left of the driver.

(h) Windows and doors in buses except for the windshield and window to the immediate right and left of the driver.

* * * * *

6. Paragraph S5.1.2.3 is revised to read as follows:

* * * * *

S5.1.2.3 *Item 13—Flexible plastics.* Safety plastic materials that comply with Tests Nos. 16, 19, 20, 22, and 23 or 24 of ANS Z26, with the exception of the test for resistance to undiluted denatured alcohol Formula SD No. 30, and that comply with the labeling requirements of S5.1.2.5 may be used in the following specific locations at levels not requisite for driving visibility.

(a) Windows, except forward-facing windows, and doors in slide-in campers and pick-up covers.

(b) Motocycle windscreens below the intersection of a horizontal plane 15 inches vertically above the lowest seating position.

(c) Standee windows in buses.

(d) Interior partitions.

(e) Openings in the roof.

(f) Flexible curtains or readily removable windows or in ventilators used in conjunction with readily removable windows.

(g) Windows and doors in motor homes, except for the windshield, forward-facing windows, and windows to the immediate right or left of the driver.

* * * * *

7. A new paragraph S5.1.2.4 is added to read as follows:

* * * * *

S5.1.2.4 *Item 14—Glass-Plastics.* Glass-plastic glazing materials that comply with the labeling requirements of S5.1.2.5 and Tests Nos. 1, 2, 3, 4, 9, 12, 15, 16, 17, 18, 19, 24, 26, and 28, as those tests are modified in (a), (b), (c), and (d) of this paragraph, may be used anywhere in a motor vehicle, except that it may not be used in convertibles, in vehicles that have no roof or in vehicles whose roofs are completely removable.

(a) Tests Nos. 9, 16, and 18 shall be conducted on the glass side of the specimen, i.e., the surface which would face the exterior of the vehicle. Tests Nos. 17, 19, 24, and 26 shall be conducted on the plastic side of the specimen, i.e., the surface which would face the interior of the vehicle. Test No. 15 should be conducted with the glass side of the glazing facing the illuminated box and the screen, respectively. For Test No. 19, add the following chemical to the specified list: an aqueous solution of isopropanol and glycol ether solvents in concentration no greater than 10% or less than 5% by weight and ammonium hydroxide no greater than 5% or less than 1% by weight, simulating typical commercial windshield cleaner.

(b) Glass-plastic specimens shall be exposed to an ambient air temperature of $-40^{\circ}C(+5^{\circ})$ $(-40^{\circ}F+9^{\circ})$ for a period of 6 hours at the commencement of Test No. 28, rather than at the initial temperature specified in that test. After testing, the glass-plastic specimens shall show no evidence of cracking, clouding, delaminating, or other evidence of deterioration.

(c) Glass-plastic specimens tested in accordance with Test No. 17 shall be carefully rinsed with distilled water following the abrasion procedure and wipe dry with lens paper. After this procedure, the arithmetic mean of the percentage of light scattered by the three specimens as a result of abrasion shall not exceed 4.0 percent.

(d) Data obtained from Test No. 1 should be used when conducting Test No. 2.

* * * * *

8. A new paragraph S5.1.2.5 is added to read as follows:

* * * * *

S5.1.2.5 *Cleaning instructions.* (a) Each manufacturer of glazing materials designed to meet the requirements of S5.1.2.1, S5.1.2.2, S5.1.2.3, or S5.1.2.4 shall affix a label, removable by hand without tools, to each item of such glazing material. The label shall identify the product involved, specify instructions and agents for cleaning the material that will minimize the loss of transparency, and instructions for removing frost and ice, and, at the option of the manufacturer, refer owners to the vehicle's Owner's Manual for more specific cleaning and other instructions.

(b) Each manufacturer of glazing materials designed to meet the requirements of paragraph S5.1.2.4 may permanently and indelibly mark the lower center of each item of such glazing material, in letters not less than 3/16 inch nor more than ¼ inch high, the following words, "GLASS PLASTIC MATERIAL—SEE OWNER'S MANUAL FOR CARE INSTRUCTIONS."

* * * * *

9. The second sentence of paragraph S6.1 is amended to read as follows:

* * * * *

S6.1 * * * The materials specified in S5.1.2.1, S5.1.2.2, S5.1.2.3 and S5.1.2.4 shall be identified by the marks "AS 11C", "AS 12", "AS 13" and "AS 14", respectively.

* * * * *

(Secs. 103, 119, Pub. L. 89–563, 80 Stat. 719 (15 U.S.C. 1392, 1407); delegations of authority at 49 CFR 1.50)

Issued on February 14, 1984.

Diane K. Steed,

Administrator.

[FR Doc. 84–4691 Filed 2–22–84; 8:45 am]

BILLING CODE 4910–01–M

Proposed Rules

Federal Register
Vol. 49, No. 37
Thursday, February 23, 1984

This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

FEDERAL HOME LOAN BANK BOARD

12 CFR Part 564

Insurance Coverage of Accounts Held by Investment Companies, Insurance of Joint Accounts

AGENCY: Federal Home Loan Bank Board.

ACTION: Proposed rule.

SUMMARY: The Federal Home Loan Bank Board ("Board"), as the operating head of the Federal Savings and Loan Insurance Corporation ("FSLIC"), proposes to amend its regulations pertaining to the settlement of insurance to address the treatment of accounts held by mutual funds and other investment companies to provide that accounts held by such companies would be insured up to $100,000 in the aggregate. The Board believes this treatment would be consistent with the purposes of the Investment Company Act of 1940. The Board also proposes to amend its regulations pertaining to joint accounts to exempt certificates of deposit and negotiable instruments from signature-card requirements. The Board believes the current rule is unnecessary and adds to the recordkeeping burden on institutions.

DATE: Comments must be received by March 22, 1984.

ADDRESS: Director, Information Services Section, Office of the Secretariat, Federal Home Loan Bank Board, 1700 G Street, NW., Washington, D.C. 20552. Comments will be publicly available at this address.

FOR FURTHER INFORMATION CONTACT: Christopher P. Bolle, Law Clerk (202) 377–7057, or Gerard Champagne, Attorney (202) 377–6455, Office of General Counsel, Federal Home Loan Bank Board, 1700 G Street, NW., Washington, D.C. 20552.

SUPPLEMENTARY INFORMATION: The Board is proposing two amendments to its insurance-of-accounts regulations. The first would provide that accounts held by an entity which would be required to file a registration statement with the Securities and Exchange Commission pursuant to section 8 of the Investment Company Act of 1940 ("1940 Act company"), if such entity were organized or otherwise created under the laws of the United States or of a State, are insured up to $100,000 in the aggregate, regardless of the form which that entity takes. The Board believes that it would be inappropriate to extend federal deposit insurance to investor interests in 1940 Act companies, because these interests are more in the nature of shareholder interests in corporations than beneficial interests in traditional trust arrangements. This treatment would be consistent with the purposes of the Investment Company Act of 1940, and with the rules of the Federal Deposit Insurance Corporation ("FDIC"). *See* 12 CFR 330.5(b). The Board sees no reason for its regulations to differ on this issue, in its primary form, from those of the FDIC.

There are, however, two respects in which the Board deems it necessary for its regulation to differ from the FDIC's. First, the FDIC's regulation covers only entities actually subject to 1940 Act registration. Thus, mutual funds organized under the laws of a foreign country which, if they are not doing business in the United States, are not required to register under the 1940 Act, are accorded a pass-through of insurance under the FDIC's regulation. The Board believes that such an anomaly is inappropriate. Therefore, the proposal would cover not only entities actually subject to registration under the 1940 Act, but also those which would be required to register if domiciled or doing business in the United States. Second, the 1940 Act exempts bank common trust funds from registration, but contains no similar express exemption for trust departments of savings associations. The Board believes that, in view of the virtually identical functions performed by bank and savings association trust departments, equal treatment should be afforded by the Insurance Regulations. Therefore, the proposal would expressly exempt common trust funds of savings associations from its operation.

In applying the proposed regulation, at the time of a payout of insurance or a transfer of insured accounts, the FSLIC would regard a "no-action" letter from the staff of the Securities and Exchange Commission stating that the account-holding entity is not required to register under section 8 of the Investment Company Act of 1940 as conclusive as to the status of that entity. In regard to entities not organized or created under the laws of the United States or of a State, to which the 1940 Act does not apply, or those which have not been issued no-action letters, the FSLIC would consider, among other factors, an opinion of counsel based upon no-action letters issued to domestic entities under similar fact patterns.

The second proposed amendment pertains to the Board's regulations with respect to certain joint accounts. The Board's current regulations require that, in order for separate insurance of joint accounts to be effective, each of the joint holders of an account must personally execute a signature card for that account. This provision was intended to ensure that joint account relationships were not fabricated in order to increase insurance coverage. The FSLIC's recent experience in liquidating institutions in default indicates that the current regulation often causes unnecessary hardship to depositors who, usually through no fault of their own, have failed to comply with the technical signature-card requirement. The Board believes that, with respect to certificates of deposit and accounts evidenced by negotiable instruments, the requirement imposed by the current provision is unnecessary and merely serves to add to the recordkeeping burden on institutions. The Board believes that, in the case of certificates of deposit and negotiable instruments, the account records of the issuing institution provide a sufficient safeguard against fraudulent claims of joint ownership, and notes that the FDIC has for some time exempted such accounts from signature-card requirements. *See* 12 CFR 330.9(b) (1983). The Board is therefore proposing to exempt such deposits from the signature-card requirement otherwise applicable to joint accounts.

Initial Regulatory Flexibility Analysis

Pursuant to Section 3 of the Regulatory Flexibility Act, Pub. L. No. 96–354, 94 Stat. 1164 (Sept. 19, 1980), the Board is providing the following regulatory flexibility analysis:

1. *Reasons, objectives, and legal bases underlying the proposed rules.* These elements have been incorporated elsewhere in the supplementary information regarding the proposal.

2. *Small entities to which the proposed rules would apply.* The rules would apply only to savings associations the accounts of which are insured by the FSLIC.

3. *Impact of the proposed rules on small institutions.* With respect to the proposed amendment pertaining to the insurance of accounts held by 1940 Act companies, it is not anticipated that the proposal will have a disproportionate impact on the ability of small institutions to attract deposits. With respect to the proposed amendment pertaining to the insurance of joint accounts, the proposal will ease the recordkeeping burden on such institutions.

4. *Overlapping or conflicting federal rules.* There are no known federal rules that may duplicate, overlap, or conflict with the proposal.

5. *Alternatives to the proposed rules.* To the extent that there are alternatives to any elements of the proposed rules, discussion of them has been incorporated into the supplementary information.

List of Subjects in 12 CFR Part 564

Banks, Bank deposit insurance, Banking, Federal Home Loan Bank Board, Federal Savings and Loan Insurance Corporation, Savings and loan associations.

Accordingly, the Board hereby proposes to amend Part 564 of Subchapter D, Chapter V, Title 12 of the Code of Federal Regulations, as set forth below.

SUBCHAPTER D—FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

PART 564—SETTLEMENT OF INSURANCE

1. Add § 564.13 as follows:

§ 564.13 Accounts held by investment companies.

Accounts held by, or funds in accounts held for the benefit or, any entity required to file a registration statement with the Securities and Exchange Commission pursuant to section 8 of the Investment Company Act of 1940, or which would be required to so file if it were organized or otherwise created under the laws of the United States or of a State, shall be insured up to $100,000 in the aggregate. This section shall not apply to common trust funds operated by an insured institution pursuant to Part 550 of this Chapter or in conformity with § 571.15 of this Subchapter.

2. Revise § 564.9(b) as follows:

§ 564.9 Joint accounts.

* * * * *

(b) *Qualifying joint accounts.* A joint account shall be deemed to exist, for purposes of insurance of accounts, only if each coowner has personally executed an account signature card and possesses withdrawal rights, except with respect to a certificate account (as defined in § 526.1(b) of this Chapter) or to an account evidenced by a negotiable instrument, but such accounts must in fact be jointly owned.

* * * * *

(Secs. 401, 402, 403, 405, 48 Stat. 1225, 1256, 1257, as amended; 12 U.S.C. 1724, 1725, 1726, 1728. Reorg. Plan No. 3 of 1947, 12 FR 4981, 3 CFR, 1943–48 Comp., p. 1071)

Dated: February 15, 1985.

By the Federal Home Loan Bank Board.

J. J. Finn,

Secretary.

[FR Doc. 84-4660 Filed 2-22-84; 8:45 am]

BILLING CODE 6720-01-M

SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 210 and 229

[Release Nos. 33-6514; 34-20657; 35-23226; IC-13772; File No. S7-10-84]

Proposals Regarding Industry Segment and Other Interim Financial Reporting Matters, Management's Discussion and Analysis, and Off Balance Sheet Financing Disclosures

AGENCY: Securities and Exchange Commission.

ACTION: Proposed rules.

SUMMARY: The Commission is today soliciting public comments on the costs and benefits of proposed amendments intended to improve disclosures related to industry segment reporting and other matters. The proposals would require (1) presentation of certain industry segment information for interim periods; (2) a discussion of reportable segments in the management's discussion and analysis; and (3) separate disclosure of amounts of notes payable, accounts payable, and the current portion of long-term debt at interim dates; the presentation, in quarterly reports, of the balance sheet as of the end of the corresponding interim period of the prior fiscal year (in lieu of the prior fiscal year-end balance sheet); and timely disclosure of the effects of a retroactive prior period restatement on results of operations for each of the last three fiscal years. The Commission is also providing advance notice of possible rulemaking regarding (1) additional segment reporting disclosures and (2) uniform disclosure of off balance sheet financing arrangements.

DATE: Comments should be received by the Commission on or before May 15, 1984.

ADDRESS: Comment letters should refer to File No. S7-10-84 and should be submitted in triplicate to George A. Fitzsimmons, Secretary, Securities and Exchange Commission, 450 5th Street, NW., Stop 6-9, Washington, D.C. 20549. All comments received will be available for public inspection and copying in the Commission's Public Reference Room, 450 5th Street, NW., Washington, D.C. 20549.

FOR FURTHER INFORMATION CONTACT: Robert K. Herdman, Lawrence S. Jones, or Andrea E. Bader (202/272-2130), Office of the Chief Accountant; or Betsy Callicott Goodell (202/272-2589), Division of Corporation Finance, Securities and Exchange Commission, Washington, D.C. 20549.

SUPPLEMENTARY INFORMATION:

Background and Excutive Summary

The Commission has recently become aware of concerns about the adequacy of its interim financial information requirements and certain other disclosures about registrants' financial condition and results of operations. Based on its staff's review of these areas, it has determined to propose the following actions:

1. Amendments to Regulation S-X [17 CFR 210] to require presentation of certain industry segment information for interim periods.

2. Amendments to Regulation S-K [17 CFR 229] to require registrants to generally focus on reportable segments in the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MDA") in order to provide an understanding of a registrant's business as a whole.

3. Amendments to the existing interim reporting provisions to require (a) separate disclosure of notes payable, accounts payable, and the current portion of long-term debt; (b) the presentation, for comparative purposes, of the balance sheet as of the end of the corresponding interim period of the prior fiscal year (in lieu of the prior year-end balance sheet currently required); and (c) timely disclosure of the effects of a retroactive prior period restatement on results of operations for each of the last three fiscal years.

The Commission is also providing advance notice of possible rulemaking action regarding (a) additional segment reporting disclosures and (b) uniform disclosure of off balance sheet financing arrangements.

These proposals are consistent with suggestions for improvements received from frequent users of Commission-mandated disclosure documents. Some of the suggestions have resulted from recent initiatives sponsored by the Commission to enhance the role such users play in the Commission's rulemaking process and thereby improve the usefulness to investment decision-making of specific disclosures required by the Commission. The initial effort was a Research Forum, conducted by the Commission in November 1982 and attended by approximately 40 professionals represnting various types of users of Commission disclosure documents, such as securities analysts, institutional investors, investment advisers, rating organizations and shareholder groups.

Users of financial information, and the Commission, have consistently emphasized the importance of timely reporting of financial information. The interim information contained in reports on Form 10–Q [17 CFR 249.308a] permits identification and analysis of trends in a registrant's financial condition and results of operations, including the impact of seasonality. Users of financial information have stated that segment information is as important to effective analysis of the interim financial statements as it is to analysis of the annual financial statements of registrants engaged in multiple businesses.

Notwithstanding their belief about the importance of segment data, certain users have also expressed some reservations about the industry segment information currently provided in annual reports. For example, they state that the basis of segmentation is often too broad for meaningful analysis and that adequate information on a segmented basis is not always provided in the MD&A. Restatements of prior year segment information also present analytical problems.

In addition to interim segment information, it has been suggested that interim financial information would be improved if the required financial statements were as detailed as statements included in annual reports.[1] Of particular interest is separate disclosure of the amounts of accounts payable, notes payable, and the current portion of long-term debt. Also, experience suggests that a comparative balance sheet as of the end of the comparable interim period of the prior year, which has not been required since 1981, is frequently used for analytical purposes.

Finally, questions have been raised about the adequacy of disclosures concerning off balance sheet financing arrangements. Registrants have entered into off balance sheet arrangements with increasing frequency in recent years. Disclosures of the various types of transactions may be contained in several different places throughout the financial statements and, as a result, the aggregate effects of significant and complex transactions may be difficult to assess. It has been suggested that user understanding of the impact of off balance sheet financing arrangements on financial position and future cash flows would be enhanced by disclosure of such arrangements in one standard footnote.

In its rulemaking activities, the Commission attempts to balance the information needs of investors with the costs to registrants of providing that information. The financial information users from whom the Commission has had recent input have provided valuable insight as to the views of the user community and the Commission believes that many of their suggestions have considerable merit. By issuing these rule proposals and requesting comments on other matters, the Commission seeks additional input from the user community, registrants, and other interested parties. Further, the Commission specifically requests comments on the costs to registrants of the adoption of the proposals published in this release.

The remainder of this release contains a discussion of the Commission's specific proposals and the reasons therefor in the order indicated below:

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A. Industry Segment Information

1. Disclosure of Interim Segment Data

The Commission has long been aware of the importance of meaningful segment information to reasoned investment decision-making in multisegment companies.[2] In May 1977, the Commission issued Release No. 33–5826 (May 10, 1977) [42 FR 26010; May 20, 1977], which proposed rules intended to coordinate its line of business information with the industry segment information required by the then recently issued Statement of Financial Accounting Standards No. 14, "Financial Reporting for Segments of a Business Enterprise" ("SFAS 14"). With respect to interim reporting of segment information, that coordination took two forms. The first was a proposed clarification of the Commission's interpretation that SFAS 14 required presentation of segment information pertaining to interim periods for which complete financial statements were presented in documents filed with the Commission.[3] The second was a request for comments on the recommendation of the Advisory Committee on Corporate Disclosure tht segment information be required in quarterly reports on Form 10–Q.[4] At that time, commentators were strongly opposed to the idea of either form of disclosure.

Concurrent with the Commission's deliberations in this area, the Financial Accounting Standards Board ("FASB") was asked to interpret the requirements of paragraph 4 of SFAS 14. In November 1977, the FASB amended SFAS 14 by the issuance of Statement of Financial Accounting Standards No. 18, "Financial Reporting for Segments of a Business Enterprise—Interim Financial Statements, an amendment of FASB

[1] The Commission's existing Article 10 of Regulation S–X permits registrants to present condensed interim financial statements within prescribed guidelines.

[2] In this regard, the Commission implemented line of business reporting requirements in 1969 that significantly expanded the previous requirement (Release No. 33–4988) (July 14, 1969) [34 FR 12176; July 23, 1969].

[3] When it was issued, paragraph 4 of SFAS 14 required presentation of segment information in "a complete set of (interim) financial statements that are expressly described as presenting financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles * * * *" At that time, the Commission's registration proxy, and information statement requirements generally mandated full financial statements, including footnotes, for interim periods required to be presented.

[4] It was the Advisory Committee's view that quarterly segment information would assist users in evaluating earnings statements. *See, Report of the Advisory Committee on Corporate Disclosure to the Securities and Exchange Commission* at D–18—D–20, D–38 380–90 (1977).

Statement No. 14" ("SFAS 18"). In SFAS 18, the FASB announced that it had decided to eliminate the interim segment information requirement from SFAS 14, pending further study of its project on interim financial reporting. That project included consideration of the type of financial information that should be presented for interim periods.

As announced in Accounting Series Release No. ("ASR") 236, (December 23, 1977) [42 FR 65554; December 30, 1977], the Commission decided not to propose amendments to require segment information for interim periods at that time. This decision was based on the expectation of better assurance of a well-reasoned decision on the issue after completion of the FASB's interim reporting project[5] *and* consideration of the experiences of both registrants and investors with the information required to be provided by SFAS 14. Further, it was believed that, in the intervening period, adequate disclosure would be included in registration statements pursuant to the requirements of Regulation S–K[6], and in reports on Form 10–Q pursuant to the Commission's expression of its view that a management's discussion of interim financial information which focuses on a segmented approach would be consistent with the requirements for an interim period MD&A which explains material changes in consolidated results.[7]

The Commission believes that a reconsideration of the question of interim segment reporting is now appropriate. Registrants, analysts, and the investing public have had several years of experience with segment disclosures. Experience indicates that interim segment information may enhance the analysis of trends in a registrant's financial condition and results of operations and facilitate an appraisal of future results and cash flows. The consolidated interim financial information alone may not permit timely identification of the future effects of differing trends experienced by different segments. Analytical problems can also result when one or more segments' operations are seasonal in nature. The Commission further notes that certain companies are already providing some interim segment information in reports on Form 10–Q (or in their informal quarterly reports to shareholders, as to which the Commission has no presentation requirements). Finally, since the requirements of SFAS 14 have been in place for approximately seven years, registrants have had the opportunity to develop systematic approaches to the development of the required disclosures.[8]

Accordingly, the Commission believes that it is appropriate to propose a requirement for disclosure, for each period presented, of interim sales, operating profit or loss, and identifiable assets for each reportable segment and geographic area determined pursuant to the guidance in SFAS 14 and presented in the same degree of detail as for annual purposes. As set forth in proposed new Rule 10–01(a)(6) of Regulation S–X, disclosure of intersegment and interarea sales and transfers and export sales would also be required, consistent with the requirements of SFAS 14 and the Commission's existing rules and disclosure of annual segment information.[9]

The Commission believes that the information proposed to be required would generally be sufficient for purposes of interim analysis and thus has excluded from the scope of the proposal information concerning the other items required to be disclosed by SFAS 14 (i.e., property additions, provisions for depreciation, and information about major customers) and the classes of similar products information required for annual purposes by items 101 of Regulation S–K. The Commission requests specific comment on the scope of the proposed disclosures.

The proposed rules would apply to all registrants, regardless of size, that are engaged in multiple businesses. However, the Commission requests specific comment on whether there are special cost-benefit considerations related to provision of interim segment information by smaller public companies.

2. Segment Approach to MD&A

The Commission's requirements in Regulation S–K for the preparation of the MD&A are designed to be flexible in order that registrants may discuss their business in the manner most appropriate to individual circumstances. At the time that it provided flexibility, however, the Commission contemplated that registrants would include a discussion focused on individual segments when such a focus is necessary for an adequate understanding of a registrant's business. Accordingly, Item 303(a) of Regulation S–K provides that "where in the registrant's judgment a discussion of segment information or of other subdivisions of the registrant's business would be appropriate to an understanding of such business, the discussion shall focus on each relevant, reportable segment or other subdivision of the business and on the registrant's business as a whole."[10]

In 1981, the Commission's staff reported on its review of MD&A disclosures made in the first year following issuance of the revised requirements.[11] The staff then noted major improvement in the quality of MD&As as compared to the often mechanistic approaches previously taken and also noted that many registrants had focused their analysis on segment data, resulting in presentations which were generally more readable and informative than previous discussions. However, there continue to be some registrants that do not provide information in their MD&A focusing on the segments of their business in situations where it appears to be necessary for an adquate understanding of the business. Accordingly, the Commission now believes its requirements should be more explicit in this area and is proposing to amend Item 303(a) to require that generally the MD&A focus on segments in order to provide an understanding of a multisegment business.

This proposal would affect MD&As relating to interim as well as annual periods. Because the interim MD&A discusses material changes in the various items required to be discussed since the end of the preceding fiscal year, the proposal would require the interim MD&A to discuss individual segments to the extent necessary to

[5] That project was removed from the Board's agenda in 1979 pending further progress by the FASB on the elements of financial statements and other phases of its conceptual framework project.

[6] Item 101(b)(2) of Regulation S–K requires that, in instances where interim financial information is presented in a document filed with the Commission that also includes annual financial information (e.g., and registration statement), a registrant is required to "discuss any facts relating to the performance of any of the segments during the interim period which, in the opinion of management, indicates that the three year segment financial data may not be indicative of current or future operations of the segment." No such explicit requirement exists for interim information included in reports on Form 10–Q.

[7] Now embodied in the Instructions to Item 303(b) of Regulation S–K.

[8] As part of its study of this issue, the Commission's staff asked the FASB whether it would undertake a project in this area. On January 4, 1984, the FASB decided that it should not now do so.

[9] The proposed rules would not require that registrants disclose the bases used for pricing such sales and transfers (unless subsequent changes have occurred), because investors have access to the latest annual reports.

[10] Adopted in ASR 279 (September 2, 1980) [45 FR 63630; September 25, 1980].

[11] ASR 299 (September 28, 1981).

explain material changes from the information provided for the most recent fiscal year, or to otherwise discuss any facts which indicate that the prior year segment data may not be indicative of current or future operations of the segment.

3. Potential Further Rule Proposals

There are two additional areas regarding segment reporting which the Commission intends to study further to determine whether it should propose rules or take other action to improve disclosures.[12]

a. *Industry Segment Determination.* In SFAS 14, the FASB provided broad guidance to determine reportable segments because, after examination of various systems for classifying business activities, it determined that no single set of characteristics or factors is universally applicable to determine the industry segments of all business enterprises.[13]

Since the FASB's adoption of SFAS 14, the Commission has expressed its views regarding the importance of the determination of appropriate reportable segments and has sought to assist registrants by discussing the segmentation provided by companies in selected industries.[14]

The Commission continues to be concerned about the way that registrants determine and report information about segments. For example, some companies assert they operate in only one segment even though the nature of the business suggests there should be some disaggregation. The Commission is not now proposing more specific guidance for determining appropriate industry segments, but sees merit in giving further consideration to whether more specific disclosure about the segmentation process should be required. The Commission invites comment on whether a requirement to specifically disclose the criteria used to determine reportable segments would lead to better segmentation and/or better user understanding of the conclusions reached by registrants in deciding on the appropriate segment disclosures. The Commission also requests suggestions for any other improvements in disclosures about segments.

b. *Changes in Segments.* SFAS 14 provides that a company should include appropriate disclosure of the nature and effect of restatements of previously reported segment information, but does not specifically require a detailed summary of the adjustments to prior years' data.[15]

The disclosure requirements contained in Regulation S–K for changes in segments basically conform to those of SFAS 14. A company must retroactively restate prior period information (1) when the financial statements of the registrant as a whole have been restated retroactively; or (2) when there has been a change in the way the registrant's products or services are grouped into industry segments and such change affects the segment information being reported. Restatement is not required when a registrant's reportable segments change solely as a result of a change in the nature of its operations or as a result of a change in the relative significance of a segment. When restatement is required, the changed segment information must be presented for only the two prior years because the present requirements call for only three years of segment data.

The Commission sees merit in giving further consideration to requiring more specific information about restated segment information in order to provide for a better understanding of the effects of such restatements on past trends and to assist in assessments of future prospects.

Specifically, the Commission invites comment on whether any restatements of segment data should be accompanied by a reconciliation of the prior data to the changed data, detailing the principal causes for the changes, and whether such a reconciliation should be required for more than the two prior years. Alternatively, should the Commission require expanded narrative disclosure of the nature of any restatements including a discussion of the effect of the changes on past trends?

Finally, the Commission requests comment on whether present disclosure requirements concerning the effects of changes in the bases of accounting for intersegment sales or transfers or changes in the methods used to allocate operating expenses among segments allow for an adequate understanding of their effects on past trends. For example, should the Commission require disclosure of the pro forma effect of such changes on segment operating profit or loss of the two prior years?

B. Miscellaneous Amendments to Interim Financial Information Requirements

1. Degree of Detail in Interim Financial Statements

In 1975, the Commission considered how much detail should be provided in interim financial statements and proposed to require full statements.[16] Commentators asserted that such full statements would be more detailed than required by investors, would be costly to prepare, and would encourage the placement of unwarranted reliance on the accuracy of the statements. In response, the Commission adopted the current rules now included in Article 10, which provide that interim financial statements may be condensed to include only the captions identified as major (i.e., numbered) in the applicable sections of Regulation S–X.[17] The only exception to this general rule is for inventories, as to which the details of raw materials, work in process, and finished goods must be presented either on the face of the balance sheet or in the notes to the financial statements.[18]

The Commission believes that the separate amounts of accounts payable, notes payable, and current portion of long-term debt are of considerable importance in evaluating the significance of interim changes in financing activities of registrants.[19]

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[12] The Commission intends to discuss comments and suggestions pertaining to these areas with the FASB in keeping with the Commission's stated policy of encouraging the private sector to establish and improve accounting principles and standards.

[13] SFAS 14 provides that reportable segments should be determined by:

(a) Identifying the individual products and services from which the enterprise derives its revenue,

(b) Grouping those products and services by industry lines into industry segments, and

(c) Selecting those industry segments that are significant with respect to the enterprise as a whole.

The FASB also indicated that certain factors should be considered in grouping products and services by industry line such as the nature of the product, the nature of the production process and markets or marketing methods.

[14] ASR 244 (March 3, 1978) [43 FR 9599; March 9, 1978].

[15] SFAS 14 also requires disclosure of the nature of and effect on segment operating profit or loss in the period of change, of changes in the basis of accounting for intersegment sales or transfers and any changes in the methods used to allocate operating expenses among industry segments.

[16] Release No. 33–5549 (December 19, 1973) [40 FR 1079; January 6, 1974] and Release No. 33–5579 (April 17, 1975) [40 FR 20308; May 9, 1975].

[17] ASR 177 (September 10, 1975) [40 FR 46107; October 6, 1975]. Further condensation is also permitted based on prescribed materiality guidelines. For example, a major balance sheet caption can be combined with others if it comprises less than 10% of total assets, and the amount in the caption has not increased or decreased by more than 25% since the end of the preceding fiscal year. Additionally, *de minimis* amounts need not be shown separately.

[18] Presentation of inventory components was required because users of financial statements had indicated that those subcaptions were of considerable importance in evaluating the significance of changes in the aggregate amount of inventories.

[19] Accounts payable, notes payable, and the current portion of long-term debt are not separate

Continued

Further, the Commission believes that these particular amounts should be separately presented in other disclosures where condensed financial statements are permitted (e.g., pro forma information). Therefore, the Commission is proposing to amend Article 5 of Regulations S–X to establish these items as separate major captions so that they will be presented in all condensed balance sheets when material.

While the Commission is not proposing at this time to require full interim financial statements, the Commission is requesting the views of commentators as to the advantages and disadvantages of the current system compared with the perceived costs and benefits of requiring that interim financial statements be presented in the same degree of detail as annual financial statements. The impact any such change would have on the timeliness of interim reporting should be addressed as well. Any future proposal to require more detailed interim financial statements would only be made if the Commission receives additional justification for such a proposal.

2. Comparative Interim Balance Sheets

Article 10 of Regulation S–X currently requires that a comparative balance sheet be provided as of the end of the most recent fiscal year. A comparative balance sheet as of the end of the comparable quarter of the prior year is required *only* if it is necessary for an understanding of seasonal fluctuations in the registrant's financial condition. These requirements, which have been in place for three years, were adopted as a result of comments received on the Commission's proposal to require a discussion of interim changes in financial condition during the last twelve months.[20] Commentators suggested, and the Commission agreed, that the MD&A of interim changes in financial condition should focus on changes since the end of the prior year, unless a registrant's operations were seasonal, in which case the MD&A should focus on changes during both periods. Consistent with its decision regarding the interim MD&A requirements, the Commission changed the comparative balance sheet requirement.

Based on three years of experience with the current interim balance sheet requirements, the Commission believes that effective analysis of interim financial information would be enhanced by inclusion of the prior year's comparative interim balance sheet in the most recent report on Form 10–Q. That balance sheet is used to calculate comparative income statement to balance sheet ratios and, while the previous interim balance sheet is available in a prior report on Form 10–Q, its use would be greatly facilitated by inclusion in the current report. Also, when financial statements are restated, the restated prior year's statement of income is not comparable with the interim balance sheet in the prior year's reports because the latter does not reflect the restatement. Most important is the fact that the basic framework for interim financial reporting contemplates that users of the interim financial information have read or have access to the audited financial statements for the preceding fiscal year and that the adequacy of additional interim disclosure needed for fair presentation may generally be determined in that context. As a result, most footnote and other disclosures are not reiterated at the interim dates.[21] Thus, there should be no need to present the year-end balance sheet in reports on Form 10–Q unless there has been an accounting change made by retroactive restatement of prior periods.

The Commission, therefore, is proposing to amend Rule 10–01(c)(1) of Regulation S–X to delete the requirement for presentation of a comparative year-end balance sheet and to instead require presentation of a comparative balance sheet as of the end of the corresponding quarter of the preceding fiscal year, as was required prior to the amendments adopted in ASR 286. The proposed amendments to Rule 10–01(b)(7) discussed in the next section of this release would, however, require presentation in Form 10–Q of a restated condensed balance sheet as of the end of the most recent fiscal year in the event of a retroactive accounting change.

The Commission wishes to make clear that this proposed change in the comparative balance sheet requirement is not intended to effect a substantive change in the interim MD&A requirements with respect to the periods to be covered (i.e., generally only the most recent quarter and the period since the prior year-end). Registrants with seasonal operations will continue to be required to discuss material changes in financial condition from the date of the previous year's interim balance sheet to the date of the corresponding current year interim balance sheet.

3. Timely Reporting of Effect on Annual Financial Statements of Retroactive Restatements Made in Interim Periods

Generally accepted accounting principles ("GAAP") require retroactive restatement of financial statements of prior periods to correct errors in preparation that are discovered subsequent to issuance of the financial statements. Registrants generally report such corrections in a timely manner by the filing with the Commission of an amendment to the document which contains the incorrect financial statements.

There are three other events which, under current GAAP, require restatement of prior periods' financial statements: business combinations accounted for by the pooling of interests method, disposals of business segments, and retroactive prior period adjustments (e.g., certain voluntary changes in accounting principles and adoptions of new standards). When such an event occurs subsequent to issuance of a registrant's most recent annual financial statements, a registration statement must include audited restated balance sheets as of the end of each of the last two fiscal years, statements of income and changes in financial position for the latest three fiscal years, and notes to financial statements.[22]

The Commission requires that such events also be reported in Exchange Act quarterly or current reports, but the financial information requirements of those reports are inconsistent with those for registration statements. Specifically, a restated balance sheet is only required as of the end of the most recent fiscal year and income statements are only required for the periods, which differ, specified in the table below. In each case, the restated financial statements, which need not be audited, may be condensed.

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major captions of Regulation S–X. Therefore, while they are required to be disclosed separately in annual financial statements, for interim purposes accounts and notes payable may be reported in the aggregate as one major caption [Rule 5–02.19] and the current portion of long-term debt may be included within the amount of other current liabilities [Rule 5–02.20].

[20] Final rules were adopted in ASR 286 (February 9, 1981) [46 FR 12460; February 17, 1981]. Prior to that time, Form 10–Q required presentation of a comparative interim balance sheet as of the end of the corresponding quarter of the preceding fiscal year. Also, there was no requirement to discuss interim changes in financial condition.

[21] Rule 10–01(a)(5) of Regulation S–X.

[22] *See*, Item 11 of Form S–2 [17 CFR 239.12] and Item 11 of Form S–3 [17 CFR 239.13].

Event	Exchange Act form	Periods required
Pooling of interests business combination.	8-K (Item 7(b))	Three most recent fiscal years and interim period from most recent fiscal year-end to most recent interim date for which balance sheet is required (Rule 11-02(c)(2)(ii) of Regulation S-X).
Disposal of business segment	8-K (Item 7(b))	Most recent fiscal year and interim period (Rule 11-02(c)(2)(i) of Regulation S-X.
Retroactive prior period adjustment.	10-Q	All periods presented in Form 10-Q (Rule 10-01(b)(7) of Regulation S-X).

Equivalency of information relevant to all investment decisions is an important element of the Commission's integrated disclosure system. The Commission believes that consistency would be improved if restated income statements were included in quarterly or current reports filed under the Exchange Act for the same periods for which such statements are requrired to be included in registration statements. Accordingly, propsed new Rule 11-02(c)(2)(iii) of Regulation S-X would require that condensed pro forma income statements following the disposal of a business segment be presented for all periods for which historical income statements are required. The proposed amendments also clarify the Commission's view that pro forma information related to such a disposal may generally be in the form of disclosures prescribed by Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB 30").[23] Similarly, Rule 10-01(b)(7) of Regulation S-X is proposed to be amended to require presentation of condensed restated income statements, in the first Form 10-Q subsequent to the date of a retractive prior period adjustment, in order to provide disclosure of the effects of such adjustment on the annual results of operations for each of the three preceding fiscal years.

C. Off Balance Sheet Financing Arrangements

The Commission has noted that during recent years registrants have become increasingly involved in various activities which may generally be referred to as "off balance sheet financing arrangements."[24] Such arrangements have also increased in complexity. The Commission is concerned about the adequacy of disclosure about these arrangements. While the Commission expects each such material arrangement to be fully disclosed in financial statements[25] and in the MD&A where appropriate, such disclosures may be presented in various different places. As a result, both the identification and analysis of the aggregate impact of the various types of arrangements may be difficult.

Accordingly, the Commission is considering proposing an amendment to Regulation S-X to require a standard footnote[26] to summarize and highlight these various arrangements. The Commission believes that such a requirement would facilitate identification and analysis, and thus improve the usefulness of finanical reports furnished to investors.

The Commission envisions that such a footnote would be appropriately captioned and would include a tabular display of known cash commitments as well as narrative information about other arrangements for which the potential impact on cash flows cannot be quantified. The Commission does not intend that such a footnote duplicate other disclosures that are typically included in a separate footnote (e.g., leasing transactions).

Specifically, the Commission believes that financial statement users would be better informed about the aggregate impact of off balance sheet financing arrangements on the registrant's future cash flows if registrants provided a tabular summary of known cash commitments for those financing arrangements that are required to be disclosed in financial statements and that are quantifiable (e.g., operating leases and take-or-pay contacts), showing the details and aggregate totals for the following five years and the remainder in total.[27] Nonquantifiable commitments, or those where only a maximum, worst case amount could be quantified, such as guarantees or other contingencies, would be disclosed in a narrative format to provide complete information in a central location.

The Commission believes there is substantial merit to a requirement for a standard footnote which would contain such a cash requirements table. Therefore, the Commission specifically requests comments on factors which should be considered in developing such a proposal. In this connection, commentators are asked to focus on the following points:

—The appropriate title for such a footnote.
—The appropriate contents for such a footnote.
—How such a footnote should relate to other disclosures included in financial statements.
—Whether a cash requirements table should include other known commitments for recordable liabilities, such as long-term debt and capitalized leases.
—Whether the Commission should also propose to amend the MD&A to required a specific discussion and analysis of the information disclosed in such a footnote, *or* whether it would be more appropriate to require such disclosures in the MD&A rather than the financial statements.

The Commission also invites suggestions for alternative solutions for improved disclosures about off balance sheet financing arrangements.

D. Text of Proposed Rules

List of Subjects in 17 CFR Parts 210 and 229

Accounting, Reporting and recordkeeping requirements, Securities.

Chapter II Title 17 of the Code of Federal Regulations is proposed to be amended as follows:

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[23] Thus, it would generally be sufficient to present statements of income wherein the results of operations of the discontinued segment are reported separately as a component of income before extraordinary items and the cumulative effect of accouting changes (if applicable), with disclosure of the amount of revenues related to the discontinued segment for each period presented.

[24] There is no standard definition of the term "off balance sheet financing arrangements." However, it is generally used to describe those arrangements which create definite or potential commitments that are not considered to be liabilities recordable in the primary financial statements. Some examples of these arrangements include operating leases, captive finance subsidiaries, take or pay contracts, and certain partnerships, joint ventures, and trust arrangements.

[25] The FASB has issued certain standards to deal with off balance sheet financing arrangements. In addition, the FASB has undertaken a long-term project to study the broad issue of conslidations and the reporting entity which is expected to deal with certain aspects of off balance sheet financing.

[26] In March 1978, The Commission on Auditor's Responsibilities ("Cohen Commission") issued its final report which included a broad range of conclusions and recommendations aimed at improving accountability and the audit function. The Cohen Commission recommended requiring a separate note to disclose contingencies. The FASB subsequently addressed the question of a standardized note for contingencies and commitments, but decided to defer consideration of the issue until further progress had been made in its conceptual framework project.

[27] Such a tabular format might be patterned after the present requirements of Statement of Financial Accounting Standards No. 47, "Disclosure of Long-Term Obligations," for unrecorded, unconditional purchase obligations, but would also include any other types of quantifiable commitments.

PART 210—FORM AND CONTENT OF AND REQUIREMENTS FOR FINANCIAL STATEMENTS, SECURITIES ACT OF 1933, SECURITIES EXCHANGE ACT OF 1934, PUBLIC UTILITY HOLDING COMPANY ACT OF 1935, INVESTMENT COMPANY ACT OF 1940, AND ENERGY POLICY AND CONSERVATION ACT OF 1975

1. By revising paragraphs (19) and (20) and adding new paragraphs 19A and 20A of § 210.5–02 as follows:

§ 210.5–02 Balance sheets * * *

19. *Accounts payable.* State separately amounts payable to (1) trade creditors; (2) related parties (see § 210.4–08(k)); (3) underwriters, promoters, and employees (other than related parties); and (4) others.

A. *Notes payable.* (a) State separately amounts payable to (1) banks for borrowings; (2) factors or other financial institutions for borrowings; (3) holders of commercial paper; (4) trade creditors; (5) related parties (see § 210.4–08(k)); (6) underwriters, promoters, and employees (other than related parties); and (7) others. Amounts applicable to (1), (2) and (3) may be stated separately in the balance sheet or in a note thereto.

(b) The amount and terms (including commitment fees and the conditions under which lines may be withdrawn) of unused lines of credit for short term financing shall be disclosed, if significant, in the notes to the financial statements. The amount of these lines of credit which support a commercial paper borrowing arrangement or similar arrangements shall be separately identified.

20. *Current portion of long-term debt.*

20A. *Other current liabilities.* State separately, in the balance sheet or in a note thereto, any item in excess of 5 percent of total current liabilities. Such items may include, but are not limited to, accrued payrolls, accrued interest, and taxes, indicating the current portion of deferred income taxes. Remaining items may be shown in one amount.

* * * * *

2. By redesignating paragraph (a)(6) as (a)(7), adding new paragraph (a)(6) and revising paragraphs (b)(7) and (c)(1) of § 210.10–01 as follows:

§ 210.10–01 Interim financial statements.

(a) *Condensed statements.* * * *

(6) Interim financial statements (or the notes thereto) shall also include the information listed below about industry segments and foreign and domestic operations and export sales. Such information shall be determined and presented pursuant to the provisions of Statement of Financial Accounting Standards No. 14, "Financial Reporting for Segments of a Business Enterprise," including those appliable to disclosure of the effects on segment information of changes in accounting principles, changes in the way segments and geographic areas are determined and changes in the bases used for pricing intersegment and interarea sales and transfers and for allocating operating expenses.

(i) The amounts of revenue (with sales to unaffiliated customers and sales or transfers to other industry segments shown separately), operating profit or loss, and identifiable assets attributable to each of the registrant's industry segments.

(ii) The amounts of revenue (with sales to unaffiliated customers and sales or transfers to other geographic areas shown separately), operating profit or loss, and identifiable assets attributable to each of the registrant's geographic areas and the amount of export sales in the aggregate or by appropriate geographic area.

* * * * *

(b) *Other instructions as to content.* * * *

(7) Disclose any retroactive prior period adjustment made during any period covered by the interim financial statements for the current fiscal year. Such disclosure shall include the effect of the adjustment on net income—total and per share—of each current and prior period included and on the balance of retained earnings. The report on Form 10–Q for the quarter in which such retroactive adjustment occurs shall present a condensed restated balance sheet as of the end of the most recent fiscal year and condensed restated income statements and disclosure of the effect of the change on net income for each of the last three fiscal years.

* * * * *

(c) *Periods to be covered.* * * *

(1) Interim balance sheets as of the end of the most recent fiscal quarter and the corresponding quarter of the preceding fiscal year. The balance sheet as of the end of the corresponding quarter of the preceding fiscal year may be condensed to the same degree as the most recent interim balance sheet provided.

* * * * *

3. By revising Instruction 3 to paragraph (b) of § 210.11–02, revising paragraph (c)(2)(ii), and adding new paragraph (c)(2)(iii) as follows:

§ 210.11–02 Preparation requirements.

(b) *Form and content.* * * *

Instructions. * * *

3. For a disposition transaction, the pro forma financial information shall begin with the historical fianancial statements of the existing entity and show the deletion of the business to be divested along with the pro forma adjustments necessary to arrive at the remainder of the existing entity. For example, pro forma adjustments would include adjustments of interest expense arising from revised debt structures and expenses which will be or have been incurred on behalf of the business to be divested such as advertising costs, executive salaries and other costs. For a disposal of a segment of a business (as defined in paragraph 13 of Accounting Principles Board Opinion No. 30), it will ordinarily be sufficient to only present statements wherein the results of operations of the discontinued segment are reported separately as a component of income before extraordinary items and the cumulative effect of accounting changes, together with footnote disclosure of the amount of revenues related to the discontinued segment for each period presented.

* * * * *

(c) *Periods to be presented.* * * *

(2)(ii) For a business combination accounted for a pooling of interests, the pro forma income statements (which are in effect a restatement of the historical income statements as if the combination had been consummated) shall be filed for the same periods for which historical income statements of the registrant are required to be included in registration statements by § 210.3–02.

(2)(iii) For a disposal of a segment of a business (as defined in paragraph 13 of Accounting Principles Board Opinion No. 30), the pro forma income statements shall be filed for all periods for which historical income statements of the registrant are required to be included in registration statements by § 210.3–02.

* * * * *

PART 229—STANDARD INSTRUCTIONS FOR FILING FORMS UNDER SECURITIES ACT OF 1933, SECURITIES EXCHANGE ACT OF 1934, AND ENERGY POLICY AND CONSERVATION ACT OF 1975—REGULATION S–K

4. By revising paragraphs (a) introductory text and (b)(1) of § 229.303 as follows:

§ 229.303 (Item 303) Management's discussion and analysis of financial condition and results of operations. * * *

(a) *Full fiscal years.* Discuss registrant's financial conditions, changes in financial condition and results of operations. The discussion shall provide information as specified in paragraphs (a) (1), (2) and (3) with respect to liquidity, capital resources and results of operations and also shall provide such other information that the registrant believes to be necessary to an

understanding of its financial condition, changes in financial condition and results of operations. Discussions of liquidity and capital resources may be combined whenever the two topics are interrelated. In order to provide an understanding of the registrant's business, the discussion shall generally focus on each relevant, reportable segment or other subdivision of the business and on the registrant as a whole.

* * * * *

(b) * * *

(1) *Material changes in financial condition.* Discuss any material changes in financial condition from the end of the preceding fiscal year to the date of the most recent interim balance sheet provided. If necessary for an understanding the impact of seasonal fluctuations on the registrant's financial condition, any material changes in financial condition from the date of the interim balance sheet as of the end of the corresponding quarter of the preceding fiscal year to the date of the most recent interim balance sheet provided also shall be discussed. If discussions of changes from both the end and the corresponding interim date of the preceding fiscal year are required, the discussions may be combined at the discretion of the registrant.

* * * * *

Authority

These amendments are being proposed pursuant to the authority in Section 6, 7, 8, 10, 19(a) and Schedule A [25] and [26] [15 U.S.C. 77f, 77g, 77h, 77j, 77s(a) and 77aa [25] and [26]] of the Securities Act of 1933; Section 12, 13, 15(d) and 23(a) [15 U.S.C. 781, 78m, 78o(d), 78w(a)] of the Securities Exchange Act of 1934; Sections 5(b), 14 and 20(a) [15 U.S.C. 79e(b), 79n, and 79t(a)] of the Public Utility Holding Company Act of 1935 and Sections 8, 30, 31(c) and 38(a) [15 U.S.C. 80a–8, 80–29, 80a–30(c), 80a–37(a)] of the Investment Company Act of 1940.

Pursuant to Section 23(a)(2) of the Securities Exchange Act, the Commission has considered the impact of these proposals on competition and it is not aware at this time of any burden that such rules, if adopted, would impose on competition. However, the Commission specifically invites comments as to the competitive impact of these proposals, if adopted.

By the Commission.

Dated: February 15, 1984

Shirley E. Hollis,

Assistant Secretary.

Initial Regulatory Flexibility Analysis

This initial regulatory flexibility analysis, which relates to proposed amendments to the segment and interim financial reporting disclosure requirements of Regulation S–X and Regulation S–K, has been prepared in accordance with 5 U.S.C. 603.

1. Reasons for Proposed Action and Objectives

As discussed in the section of the release "Background and Executive Summary," the Commission is proposing amendments to Regulations S–X and S–K to improve the usefulness of industry segment and other interim financial information included in disclosure documents mandated by the Commission. The ability of users of financial information to understand registrants' financial statements and to determine the existence of trends in operations is expected to improve as a result of the disclosure of the following information:

—Amounts of sales, operating profit or loss and identifiable assets by reportable business segment and geographical area, including intersegment and interarea sales and transfers and the amount of export sales in interim financial statements.
—A greater focus in the MD&A included in registration statements and periodic reports on the individual segments of the registrant's business.
—Separate disclosure of various amounts of current liabilities in interim financial statements.
—The comparative balance sheet as of the end of the comparable quarter of the prior fiscal year in lieu of the balance sheet as of the end of the most recent fiscal year in reports on Form 10–Q.
—Timely reporting of restated statements of income for the last three fiscal years in the event of the disposal of a business segment or a prior period adjustment in a current or quarterly report.

2. Legal Basis

The Commission is proposing the amended rules pursuant to the authority in Sections 6, 7, 8, 10, 19a and Schedule A [25] and [26] of the Securities Act of 1933, 15 U.S.C. 77f, 77g, 77h, 77j, 77s(a), 77aa [25] and [26]; Sections 12, 13, 15(d), and 23(a) of the Securities Exchange Act of 1934, 15 U.S.C. 78*l*, 78m, 78o(d), 78w(a); Sections 5(b), 14 and 20(a) of the Public Utility Holding Company Act of 1935, 15 U.S.C. 79e(b), 79n, and 79t(a); and Sections 8, 30, 31(c) and 38(a) of the Investment Company Act of 1940, 15 U.S.C. 80a–8, 80–29, 80a–30(c), 80a–37(a).

3. Small Entities Subject to Rule

For purposes of this analysis, the Commission is using the definition of "small business" as adopted in Securities Act Release No. 6380.[28] That release provides that, when used in reference to the Securities A small business means any issuer whose total assets on the last day of its most recent fiscal year were $3 million or less and is engaged or proposes to engage in "small business financing".[29] When used with reference to an issuer or a person other than an investment company under the Securities Exchange Act, small business means an issuer or person that, on the last day of its most recent fiscal year, had total assets of $3 million or less. Investment companies with net assets of $50 million or less as of the end of their most recent fiscal years are small businesses. Accordingly, the amendments would affect all entities that fall within the Commission's definition of a "small entity" and file periodic reports or registration statements (except on form S–18) containing interim information.

4. Reporting, Recordkeeping, and Other Compliance Requirements

The proposed rules would introduce certain new reporting obligations; several of these may entail additional recordkeeping or compliance requirements. The Commission feels that the additional burdens, if any, are justified by the availability to investors and other users of Commission-mandated disclosure documents of material information regarding registrants' performance.

As discussed in the section of the release entitled "Industry Segment Information—Disclosure of Interim Segment Data," the requirements for annual reporting of financial information by business segment and geographical area have been in existence for approximately seven years. Adoption of proposed new Rule 10–01(a)(6) would represent the first instance of a requirement that segment data be provided on a quarterly basis. Although some registrants are already providing such data voluntarily, it is not certain that all small businesses routinely assemble this data from the existing accounting records on an interim basis. However, since the segment information proposed to be required represents only a disaggregation of data routinely generated for and included in interim financial statements, it is assumed that the same procedures employed by

[28] Securities Act Release No. 6380 (January 28, 1982) [47 FR 5215].

[29] Small business financing is defined to mean conducting or proposing to conduct an offering of securities which does not exceed the dollar limitation prescribed by Section 3(b). Such limitation is presently $5 million.

registrants at year end to calculate the annual segment data can be duplicated at interim dates. The professional skills required would be the same as those already required to produce the comparable year-end disclosure. It is possible that the efforts which would be required by those small businesses which are engaged in multiple segments to assemble this information would represent an additional compliance requirement.

As discussed in the section of the release entitled "Industry Segment Information—Segment Approach to MD&A," the proposed amendment to Rule 303(a) of Regulation S–X represnts a clarification of the existing rule consistent with current practice and policy as monitored and enforced by the Commission's Staff. As such it should not impose and additional compliance burden.

As discussed in the section of the release entitled "Miscellaneous Amendments to Interim Financial Information Requirements—Degree of Detail in Interim Financial Statements," the amendment to Rules 5–02.19 and 5–02.20 of Regulation S–X would only require the addition of several line items to a registrant's interim balance sheet if the amounts of such items are material. Such amounts must be reported in annual financial statements, so the requisite information is already collected on an ongoing basis in the general ledger accounts.

As discussed in the section of the release entitled "Miscellaneous Amendments to Interim Financial Information Requirements—Comparative Interim Balance Sheets," the proposed amendment to rule 10–01(c)(1) would only change the date of the comparative balance sheet to be included in reports on Form 10–Q. This change should not impose any additional burden on registrants since the number of balance sheets provided would remain constant and, in most cases, the revised requirement would only involve the reprinting of the same condensed financial information that was filed with the Commission in the previous year. The new requirements, therefore, would be based on the company's existing records and would not call for adoption of any new record keeping procedures.

As discussed in the section of the release entitled "Miscellaneous Amendments to Interim Financial Information Requirements—Timely Reporting of Effect on Annual Financial Statements of Retroactive Restatements made in Interim Periods," proposed new Rule 11–02(c)(2)(iii) would accelerate the time when restated income statements for periods prior to the most recent fiscal year must be filed pursuant to the Securities Exchange Act in the event of a disposal of a business segment. Proposed amended Rule 10–01(b)(7) would accelerate presentation of restated statements of income in the event of a prior period adjustment from the time of filing the next Form 10–K to the time of filing the next Form 10–Q. Although accelerated disclosure would result from these changes, the registrant skills needed to comply with the changes should not extend beyond those already needed to fulfill existing requirements.

5. Overlapping or Conflicting Federal Rules

The Commission believes that no present Federal rules duplicate or conflict with the proposals.

6. Significant Alternatives

Pursuant to Section 603 of the Regulatory Flexibility Act the following types of alternatives were considered:

(1) The establishment of differing compliance or reporting requirements or timetables that take into account the resources available to small entities;

(2) The clarification, consolidation, or simplification or compliance and reporting requirements under the rule for such small entities;

(3) The use of performance rather than design standards; and

(4) An exemption from coverage of the rule, or any part thereof, for small entities. Notwithstanding consideration of these alternatives, no distinction for small entities is incorporated into the proposed rules for a variety of reasons. In light of the lack of any new significant reporting, recordkeeping, or other compliance requirements imposed by the proposed MD&A rule change, the proposals to require disclosure of the comparative prior year interim balance sheet in lieu of the prior year-end balance sheet, and disclosure of certain current liabilities, there is little reason to restrict the benefit to the public of such disclosure by failing to require small entities to comply with the new requirements. The expansion of the periods for which statements of income would be restated for purposes of timely interim reporting does accelerate somewhat the timing of the disclosure of such restated statements, but registrants will have already performed the restatement calculations in order to comply with the existing requirements for timely disclosure following the events specified.

The Commission believes that the incremental task of accelerating the timing of such disclosure is small in relation to the benefit to investors of more timely disclosure of the impact of such changes.

Although many businesses may now have in place systems which provide for the assembly of the segment information in light of the longstanding requirement that such be disclosed on an annual basis, the proposed disclosure of interim segment information might impose an additional cost on some small businesses. For that reason, the release requests specific comment on whether there are unique cost/benefit consideration related to provision of interim segment information by smaller public companies, which would include "small businesses". However, the rules as proposed would apply to all registrants because the Commission believes that segment information is important for all registrants, regardless of size, that are engaged in multiple businesses.

In the Commission's view, the fundamental performance standard for financial reporting is the presentation of all information material for rational investment decisions. However, the existence of many alternative approaches to disclosure may result in reduced comparability in the data reported and the form of presentation, thereby adversely affecting the ability to analyze the financial information. Because comparability in financial reporting is important in evaluating issuers' operational and managerial performance, the Commission has historically acted to minimize excessive diversity in reporting of material information when it occurs among companies in essentially the same circumstances. This is generally accomplished by establishing design standards for reporting as the Commission seeks to do in the present case with the proposal ot require segment data on a quarterly basis from all registrants.

7. Solicitation of Comments

The Commission encourages the submission of comments with respect to any aspect of this initial regulatory flexibility analysis and such comments will be considered in the preparation of the final regulatory flexibility analysis if the proposed amendments are adopted. The Commission is especially interested in any empirical data on the costs and/or benefits of the proposed amendments. Persons wishing to submit written comments should file four copies thereof with George A. Fitzsimmons, Secretary, Securities and Exchange Commission, 450 5th Street, NW., Washington, D.C. 20549. All submission should refer to

File No. S7–10–84 and will be available for public inspection at the Commission's Public Reference Room, 450 5th Street NW., Washington, D.C. 20549.

[FR Doc. 84–4791 Filed 2–22–84; 8:45 am]
BILLING CODE 8010–01–M

17 CFR Part 275

[IA–899; File No. S7–7–84]

Amendment to Investment Adviser Recordkeeping Rule

AGENCY: Securities and Exchange Commission.

ACTION: Proposed rule amendment.

SUMMARY: The Commission is publishing for comment a proposed amendment to the recordkeeping rule under the Investment Advisers Act of 1940 to permit advisers to preserve required records on microfilm without having to retain hard copies for two years. This amendment would make this part of the rule consistent with other Commission recordkeeping rules and result in cost savings to registered investment advisers using microfilm. The Commission also is requesting comment on whether to permit advisers to store records only in computer systems and, if so, under what conditions.

DATE: Comments must be received on or before April 16, 1984.

ADDRESS: Comments should be sent in triplicate to George A. Fitzsimmons, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, D.C. 20549. Comment letters should refer to File No. S7–7–84. All comments will be available for public inspection and copying in the Commission's Public Reference Room, 450 Fifth Street, NW., Washington, D.C. 20549.

FOR FURTHER INFORMATION CONTACT: R. Michael Parker, Senior Compliance Examiner, (202) 272–2025 or Mary Podesta, Special Counsel, Division of Investment Management, (202) 272–2039, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, D.C. 20549.

SUPPLEMENTARY INFORMATION: Rule 204–2 (17 CFR 275.204–2) under the Investment Advisers Act of 1940 (15 U.S.C. 80b–1 et seq.) (the "Advisers Act") specifies the records which advisers subject to registration under the Advisers Act must make and keep and make available to the Commission's representatives for examination. Generally, records must be maintained for at least five years after the end of the fiscal year in which the last entry on the record is made. Under rule 204–2, a record must be preserved in hard copy form for two years, after which a photograph on film can be substituted. The recordkeeping rules adopted by the Commission for investment companies under the Investment Company Act of 1940 ("Investment Company Act") and for brokers and dealers under the Securities Exchange Act of 1934 ("Exchange Act") (15 U.S.C. 78a et seq.) permit immediate substitution of microfilm for hard copy.[1]

The Commission proposes to amend rule 204–2 to permit immediate substitution of microfilm for hard copy under conditions which permit Commission examination of the records and minimize the risk that records will be permanently lost or destroyed. The conditions in the proposed amendment are identical to those contained in rule 31a–2(f)(1) under the Investment Company Act and rule 17a–4(f) under the Exchange Act. The Commission is proposing this amendment to make the Advisers Act recordkeeping rule consistent with other recordkeeping rules adopted by the Commission. The amendment would reduce the cost of record retention for advisers using microfilm.

The Commission also requests comment on whether the proposed amendment should be expanded to permit advisers who maintain required records in computer systems to rely on computer storage systems, rather than on hard copy or microfilm, for compliance with rule 204–2 and, if so, under what conditions.

Both the protection of investors and sound business practice require that records be maintained and preserved in a manner which minimizes the risk of loss, destruction, or tampering and which ensures that records are available for review. In view of the increasing use of computer systems by advisers, the Commission believes it should begin the process of determining to what extent storage of information on, for example, computer tapes or discs, and not in hard copy form or microfilm, would be both useful and consistent with the protection of investors. Accordingly, the Commission requests specific comment on the following:

(1) Would advisers maintain records required by rule 204–2 only in computer systems, and not in hard copy or microfilm, if permitted to do so under rule 204–2; what particular records might be so maintained, and why?

(2) Can appropriate safeguards be designed to minimized the risk that records stored only in computers can be altered, lost, or destroyed?

(a) Because magnetic tape is a relatively fragile storage medium and computer security is often a difficult problem, what safeguards could adequately protect investors and the Commission's ability to examine adviser records pursuant to Section 204 of the Advisers Act (15 U.S.C. 80b–4)?

(b) Should the Commission require that a duplicate of the computer storage medium be maintained separately from the original and, if so, should the duplicate be stored in a separate location and not in the adviser's office; how frequently should the duplicate be updated to incorporate new records entered into the operational data bank?

(c) What other requirements might be appropriate in addition to, or as an alternative to, a duplicate computer storage medium?

(3) What procedural requirements should be imposed to ensure that advisory computer records are furnished promptly to Commission staff for examination pursuant to Section 204 of the Advisers Act?

(a) Should advisers storing records only in computers be required to assume the responsibility of furnishing print-outs of records to Commission staff within 24 hours of a request?

(b) If an adviser using a computer record retention system discontinues its use or changes to a non-compatible system, how can the ability of the Commission to examine the adviser's records pursuant to Section 204 be preserved?

(4) What would be the relative costs and benefits of permitting advisers to store records only in computers and of the various safeguards which might be required?

(5) What other factors or information should the Commission consider in determining whether to permit investment advisers to store required records only in computer systems?

List of Subjects in 17 CFR Part 275

Investment advisers, Reporting and recordkeeping requirements, Securities.

Text of Proposed Rule

Chapter II of Title 17 of the Code of Federal Regulations would be amended by revising paragraph (g) of § 275.204–2 as follows:

[1] 17 CFR 270.31a–2(f)(1) and 17 CFR 240.17a–4(f).